

IU International



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Financial Highlights

In thousands, except per share data

	1977	1976
Revenues	\$2,275,780	\$1,957,648
Net Earnings	\$59,241	\$42,445
Earnings Per Share	\$1.75	\$1.25
Dividends Per Common Share	\$.90	\$.875
Shareholders' Equity Per Share	\$19.04	\$18.13
Total Assets	\$2,659,098	\$2,396,518

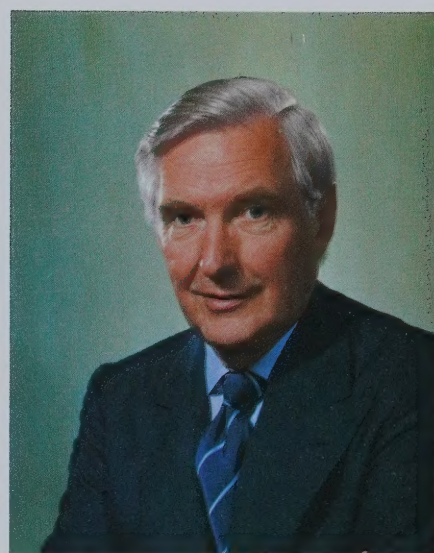
This Is IU International

IU International Corporation is a diversified company with major interests in land transportation, ocean shipping, utility services, industrial products and services, distribution services, and agribusiness products and services.

IU evolved from a utilities holding company founded in 1924 as International Utilities Corporation (the name was changed in 1973 to IU International Corporation). Beginning in 1959, the company embarked on a program of selective diversification. By 1970, the emphasis had shifted from diversification to consolidation, with most of the growth since that time being generated internally.

IU has approximately 40,000 employees and 42,000 shareholders. The company is headquartered in Wilmington, Delaware, and has executive offices in Philadelphia, Pennsylvania.

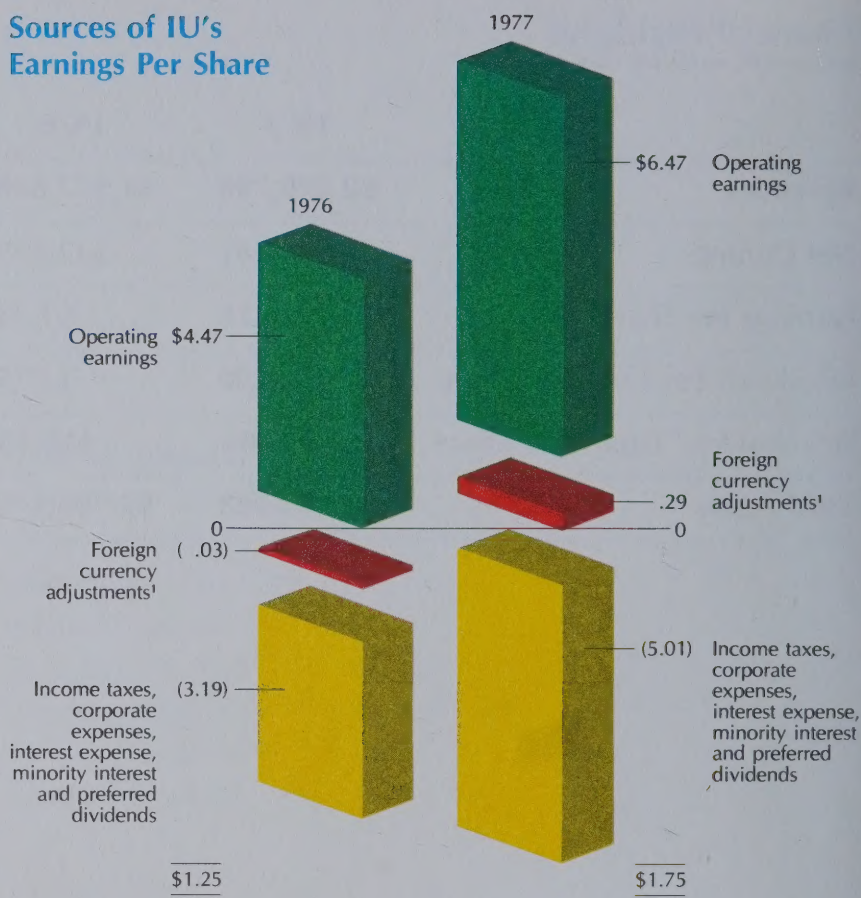
The Year in Review



John M. Seabrook
Chairman and Chief Executive Officer

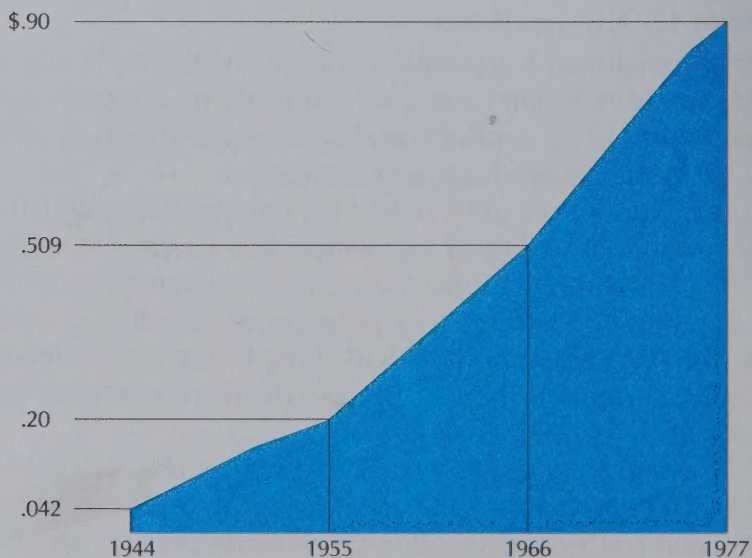


Sources of IU's Earnings Per Share



¹After tax and excluding minority interest

Dividends Per Common Share



To Our Shareholders:

IU International's results improved in 1977, confirming our confidence in the potential of our major businesses.

Net earnings were \$59.2 million, or \$1.75 per share, compared with \$42.4 million, or \$1.25 per share, in 1976. Revenues in 1977 were \$2.28 billion, compared with \$1.96 billion in the previous year. Operating earnings rose to \$213.8 million, up from \$146.7 million in 1976.

Dividends of 90 cents per common share were paid to shareholders in 1977, marking the 33rd consecutive year of continuous growth in per-share payout. Dividends of 87.5 cents per common share were paid in 1976.

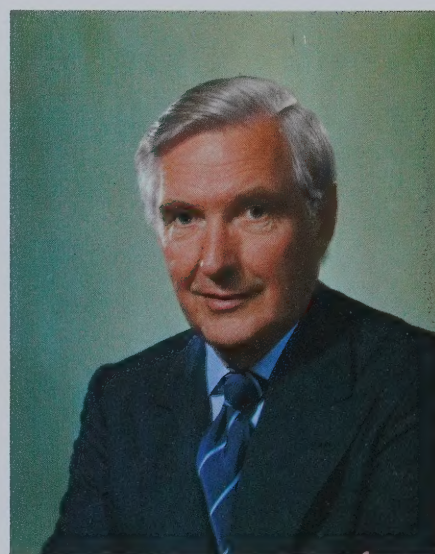
Capital expenditures in 1977 totaled \$397.1 million. We plan outlays of about \$281 million in 1978, with the major investments planned for utility, trucking, ocean shipping and industrial operations. Confidence in the company's overall financial strength continues as these capital requirements are met from internally generated cash and through financings primarily by the individual operating units.

Foreign currency adjustments added \$9.8 million, or 29 cents per share, to IU's net earnings in 1977, compared with a reduction of \$913,000, or three cents per share, in the previous year. The largest element in these adjustments is the translation of Canadian Utilities Limited's long-term debt, which is in Canadian dollars, into United States dollars. This translation has no cash effect.

Under Financial Accounting Standard No. 14 (FAS 14), a new reporting standard adopted by the Financial Accounting Standards Board, companies must now report revenues and operating earnings by major business segments in their financial statements. IU has been providing this information in its annual and quarterly reports since 1969. Conformance with the new standard results in only minor restructuring of IU's major market groups, and should not cause investors any problems in interpreting our sources of revenues.

However, whereas we previously reported the earnings contribution to IU of each major business group *after* deductions for interest expense and minority owners' share of net earnings, in conformance with the new standard we are now reporting the operating earnings for each group *before* deductions for interest expense, foreign currency adjustments, minority owners' share of net earnings, and income taxes. In those capital-intensive groups where interest is a major factor or where there is minority ownership, the new method of reporting could be confusing at first. For example, IU is reporting that C. Brewer had operating earnings of \$19.7 million in 1977 versus an op-

The Year in Review



*John M. Seabrook
Chairman and Chief Executive Officer*



erating loss of \$8.5 million in 1976; previously we would have reported that IU's 54% share of C. Brewer's net earnings was \$2.5 million in 1977 versus a loss of \$4.8 million in 1976.

According to the Financial Accounting Standards Board, the purpose of FAS 14 is "to assist financial statement users in analyzing and understanding the enterprise's financial statements by permitting better assessment of the enterprise's past performance and future prospects."

Land transportation achieved record results in 1977. Revenues increased to \$637.7 million, up 32% from \$484.3 million in 1976. Operating earnings grew to \$44.5 million from \$31.2 million in 1976.

IU's land transportation group provides general, special and bulk commodities services through Ryder Truck Lines, its Helm's Express and Byrns Motor Express divisions, and Pacific Intermountain Express (P-I-E). The general freight divisions of our trucking companies grew faster than the industry as a whole again in 1977, reflecting continued progress in establishing our reputation for high quality service.

The special commodity operations of Ryder, P-I-E and Helm's produced exceptional gains in 1977. These operations transport large-volume, special-rated commodities such as iron and steel, construction materials and refrigerated goods.

The outstanding performance of the group resulted from aggressive expansion programs, coupled with sound cost controls. During the year, Ryder and its divisions opened 39 new truck terminals and P-I-E opened 30, bringing the combined number of general or special commodity terminals operated to 551 at year-end. Each new terminal offers service to most of the other terminals of the same carrier, substantially expanding service capability.

In addition to increasing their service in existing market areas, Ryder and P-I-E also expanded the geographical areas served. Ryder has expanded its operating franchise in North Carolina, South Carolina and Georgia, and P-I-E in Illinois and into Arizona.

Ryder, P-I-E, Helm's and Byrns now offer one of the most comprehensive trucking systems in the industry, serving nearly every major city in the continental United States. IU's land transportation network is also growing overseas via P-I-E Transport, which operates international freight services in Europe and the Middle East.

Continuation of the high growth rates of Ryder and P-I-E and their divisions depends on the continued successful implementation of strategies emphasizing superior service, expanded

Land transportation had another outstanding year



markets, effective cost controls and improved productivity. The health of the United States economy, regulatory recognition of cost increases, and weather conditions are important variables influencing the outlook for all trucking companies; but based on their present strong positions, we expect Ryder and P-I-E again to achieve above-average growth in 1978.

Gotaas-Larsen Shipping Corporation, IU's ocean shipping subsidiary, increased its revenues by 15% to \$166.1 million in 1977, compared with \$145.0 million in 1976. Operating earnings improved to \$31.5 million, up from \$14.3 million a year earlier. However, increased interest costs associated with deliveries of new ships in recent years more than offset the operating improvement, and overall activities produced a small net loss in 1977 compared with a small profit in 1976.

Operating earnings increased as a result of the delivery and employment of three liquefied natural gas (LNG) carriers during the year, and outstanding performance of passenger cruise ships. Bulk cargo vessel demand remained weak, with the market for oil tankers being particularly depressed. The sale of six bulk cargo vessels ended our participation in the South American coal and ore trades, where results had been poor for the past several years. Gains from the sale of these vessels, two refrigerated ships and two oil tankers contributed to overall 1977 results, although not as much as gains from vessel sales in 1976.

All four of Gotaas-Larsen's LNG carriers began carrying liquefied gas to Japan during the year, helping to meet Japan's energy needs. Each of these 125,000-cubic-meter-class vessels carries enough LNG on each trip to generate a year's supply of electricity for a Japanese city of more than 100,000 people. All four of these ships have performed splendidly and efficiently, a tribute to their officers and crews and the high level of training they received.

"Golar Freeze" began carrying LNG from Indonesia to Japan under a short-term charter that commenced in mid-1977 and concluded last month. We have chartered this vessel for several additional voyages in the Indonesian trade, and we hope she will have other employment opportunities during 1978.

"Hilli," "Gimi" and "Khannur" are contracted to carry LNG from Abu Dhabi to Japan, with charter hire approximating \$1 billion over the 20-year charter period. During 1977, all three ships successfully entered this service. There have been some production start-up problems at the Das Island liquefaction plant, so not enough LNG has been produced to keep all three ships fully employed throughout the initial start-up period. However, we have now been notified that full production of

**Increased interest costs
offset operating gains
in ocean shipping**

"Gimi" is one of three Gotaas-Larsen sister ships carrying liquefied natural gas to Japan under 20-year charters.



LNG is expected next month. "Khannur" has already resumed full charter hire, and we expect "Hilli" to return shortly.

During 1977, the delivery dates of two LNG carriers being built in Japan were deferred until mid-1980 and late 1982, respectively, when improved charter prospects are anticipated.

The tanker market remains depressed, and five of Gotaas-Larsen's oil tankers were in layup at year-end. These layups are expected to continue in 1978; chartering prospects for crude oil carriers are not likely to improve this year.

All four of Gotaas-Larsen's offshore drilling rigs returned to service in the North Sea from layup during 1977. Nonetheless, because of the earlier layup status, this business produced a substantial loss for 1977. Results should be sharply improved in 1978, and the market shows signs of even further recovery over the long term.

Market conditions for oil tankers will again make it impossible for Gotaas-Larsen to realize its full potential, and 1978 results are likely to be similar to those of 1977.

IU's utility services group, consisting of 64%-owned Canadian Utilities Limited and wholly-owned General Waterworks Corporation, had revenues of \$448.9 million in 1977, up 26% from \$357.6 million in 1976. Operating earnings were \$78.3 million, compared with \$76.0 million in the previous year.

Canadian Utilities (CU) is the major natural gas distributor in the province of Alberta, supplying gas to more than 428,000 customers in 260 communities. CU's gas revenues rose to \$299.6 million in 1977 from \$222.4 million a year earlier. Sales volume was up in all categories, especially industrial.

Operating earnings from gas services declined to \$26.4 million from \$27.5 million in 1976, largely as a result of the write-off of CU's total outlay in support of an application to construct a northern pipeline which was rejected in 1977 by Canada's National Energy Board.

CU also provides electric service to more than 106,000 customers in 385 communities, largely in Alberta. Electric revenues grew to \$88.5 million in 1977 from \$79.4 million in 1976. Operating earnings were \$34.1 million, up from \$32.3 million.

Interim rate increases granted to CU during the latter half of 1977 strengthened second-half performance. Above-average industrial and residential growth is expected to continue in the province of Alberta in 1978, providing a sound basis for CU's continued growth and profitability.

IU's water management subsidiary, General Waterworks, provides water service to more than 300,000 customers in 15 states. In 1977, these operations produced revenues of \$60.8

Utility services continued steady performance



million, compared with \$55.7 million in 1976. Operating earnings were \$17.8 million in 1977 and \$16.2 million in 1976.

During these times of inflation, the cost of obtaining rate relief has been out of proportion to the increases granted at certain small water companies. We have been selling these properties, usually to the municipality involved. During the year, 37 rate increases were granted and six operations were sold. This process of restructuring the company into larger, more efficient units by selling smaller properties has the result of improving operating earnings, and is expected to continue.

IU's industrial products and services group achieved record performance in 1977. Revenues increased to \$205.6 million, up 23% from \$167.6 million in 1976. Operating earnings rose to \$31.1 million from \$20.4 million.

Improved results were recorded for most of the companies in the group. International Mill Service, IU Conversion Systems and Southwest Fabricating & Welding produced particularly strong gains.

Reflecting the strength of steel production abroad, International Mill Service (IMS) improved its performance despite a substantial slowdown in the United States steel industry. The company processes slag and recovers metal by-products for 69 steel mills in 15 countries. The benefits of geographic diversification should help IMS achieve good results in 1978.

IU Conversion Systems markets a service that converts harmful utility and industrial pollutants into stable, environmentally safe materials that are usable for landfill, roadbase and other construction purposes. The company has been awarded more contracts for treating sludge from flue-gas scrubbers at coal-burning power plants than all of its competitors combined. During 1977, seven more major contracts were obtained from electric utilities.

Southwest Fabricating & Welding reported substantially higher volume and earnings in 1977, and its backlog of orders for high-quality piping and pressure vessels remains high. Hills-McCanna, IU's other energy-related manufacturing subsidiary, showed only moderate growth in sales volume and earnings. Expansion of manufacturing capacity, maintenance of margins, and healthy backlogs indicate good performance by both companies in 1978.

In recent years, we have sold our under-achieving industrial units. IU's remaining industrial subsidiaries are leaders in their markets. Matching 1977's rate of gain will be difficult, but we expect this group to continue to be a strong contributor to revenues and earnings in 1978.

**Industrial products
and services had
record-breaking year**



IU's distribution services companies produced revenues of \$544.3 million in 1977, an increase of 7% from \$510.8 million in 1976. Operating earnings declined to \$3.5 million from \$4.3 million in 1976. Results for 1977 include substantial losses from the divestment or liquidation of three unprofitable units.

Biggers Brothers, an institutional food service subsidiary in the Southeast, achieved the greatest gains in the group, reporting improved revenues and sharply higher operating earnings. At Unijax, a leading paper and consumable products supplier in 27 states, revenues and operating earnings were moderately higher. Codesco, a national dental supply company, continued at about the same low level of performance as in the previous year. The industrial distribution subsidiaries showed a further decline from their 1976 results.

Segments of the distribution group have not performed well since the 1974-1975 recession. During 1977, several steps were taken to strengthen the group. One industrial distribution company was sold, and two contractor-oriented industrial suppliers were liquidated. In addition to eliminating the losses, these dispositions will enable management to concentrate on the companies whose market position and growth prospects are attractive.

IU's agribusiness subsidiary, C. Brewer and Company, Limited, had revenues of \$236.3 million in 1977, down 7% from \$254.6 million in 1976. Operating earnings were \$19.7 million in 1977, versus a loss of \$8.5 million in 1976. C. Brewer is 54% owned by IU, but under the new FAS 14 regulation we report in IU's operating earnings the total operating earnings of C. Brewer and not just IU's 54% share.

Improved earnings were evident in most of this Hawaii-based subsidiary's operations. The principal factors in the recovery were gains from land sales and the federal sugar support payment program, which enabled C. Brewer to operate its sugar plantations slightly above breakeven in contrast to the severe losses incurred in 1976.

In an effort to maintain a viable American sugar industry, the federal government instituted a program of support payments to domestic sugar growers in 1977. That program was replaced by price supports designed to bring the price of raw sugar up to 13½ cents per pound, the minimum average cost of production for most Hawaiian growers. While the price supports are not designed to make sugar production profitable, they do at least limit losses for United States growers. The price supports expire at the end of 1978, and the industry's stability after that may be dependent upon Congressional approval of the 1977 International Sugar Agreement (ISA), which hopefully could

Distribution services' restructuring continues

Agribusiness operations show improvement



establish world raw sugar prices in a range of 11 to 21 cents a pound. However, since such a program has never worked before, Hawaiian growers are calling for a back-up support program in addition to the ISA.

Although there were losses from potato and rice operations, other agricultural production activities produced higher earnings, with especially good results in spice and coffee operations. Agricultural marketing activities also recorded a sizable gain over the prior year, led by molasses distribution, macadamia nuts and fertilizer marketing. C. Brewer's investment in various land development and leisure time activities was reduced by the sale of two hotels, one of which was operating at a substantial loss.

Promising non-sugar agricultural production and marketing activities, including specialty foods, offer good growth opportunities, but the outlook for C. Brewer in 1978 and beyond is still heavily dependent on sugar.

During the year, IU and C. Brewer announced mutual consideration of a proposal under which IU would acquire the remaining 46% of C. Brewer's outstanding shares. C. Brewer shareholders could vote on the proposed merger at their annual meeting in June, if all necessary approvals and other conditions can be satisfied by then.

After a full year of careful planning by the Board of Directors for this important move, John Gilray Christy, 45, was elected president and a director of IU on January 23, 1978. Mr. Christy has had six very successful years at IU, first as a group vice president and then as an executive vice president. More details about his background appear on page 17.

As chief operating officer, Mr. Christy has responsibility for all operations except for those units with publicly-held securities outstanding: C. Brewer, Canadian Utilities and General Waterworks.

On March 2, 1978, other senior officers were given new assignments as part of a management realignment.

John B. Turbidity, 49, a senior vice president who joined IU in 1974, was elected an executive vice president, reporting to the president. He will be responsible for the distribution services group and the two industrial groups. The ocean shipping and land transportation groups report directly to Mr. Christy.

Robert F. Calman, 45, who joined IU in 1970 as vice president-finance and treasurer and who has been an executive vice president since 1974, now has responsibility for all of the finance functions of the company, as well as the utility services group. At the annual meeting in May, Mr. Calman will be pro-

New responsibilities announced for IU officers

Continued growth expected in 1978

posed with the management slate for election as a director of IU. He already serves with me as one of only two non-Canadians on the board of Canadian Utilities.

John A. Murphy, 37, who has been with IU since 1969, was elected vice president of corporate development, reporting to Mr. Calman.

IU has been especially fortunate in attracting competent, highly energetic and successful officers. I believe that our management will guide the company to a new decade of growth in the 1980s.

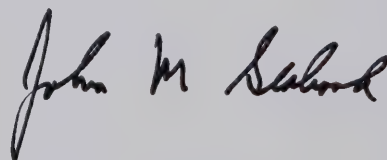
In 30 years, IU has had only two chief executives, Mr. Howard Butcher, III, and me. After his election as president, Mr. Christy reminded the directors that I had been elected president exactly 13 years ago, and that although IU already had such important subsidiaries as International Mill Service, Gotaas-Larsen and Ryder, the 1965 annual report showed total revenues of \$132 million and net earnings of \$13.2 million. He concluded by saying that even though the company's momentum had slowed temporarily during 1975-1976, we are now moving in the right direction again and he and the other officers believe that the future holds great opportunity for IU.

Although accounting rules require us to report that our earnings per share increased from \$1.25 in 1976 to \$1.75 in 1977, part of this gain came from foreign exchange adjustments. Our operating managers think of per-share earnings as having increased from \$1.28 in 1976 to \$1.46 in 1977, an increase of 14%, and still a respectable growth rate. The poor results from the weak areas masked excellent performance in other areas, notably land transportation and industrial groups.

The majority of our businesses have good prospects and should continue growing. While I do not expect a dramatic surge in earnings until the ocean shipping market recovers, I do expect continued progress for IU in 1978. I am also confident of IU's ability to maintain its distinguished dividend record into the foreseeable future.

On behalf of our 40,000 loyal employees and the company's directors, I thank the shareholders for their continued support.

Sincerely,



John M. Seabrook
Chairman and Chief Executive Officer

March 3, 1978

Directors

John G. Christy, Philadelphia, Pennsylvania
President and Chief Operating Officer of IU

John T. Jackson,* Haverford, Pennsylvania
Chairman of the Executive Committee of IU

E. B. Leisenring, Jr., Berwyn, Pennsylvania
Chairman of Westmoreland Coal Company (Coal producing company)

Peter L. P. Macdonnell, Edmonton, Alberta
Senior Partner of Milner & Steer (Barristers and solicitors)

Willis S. McLeese,*† Toronto, Ontario
President of Trans Canada Freezers, Limited (Cold storage plant operators)

John M. Seabrook,* Salem, New Jersey
Chairman and Chief Executive Officer of IU

Lewis H. Van Dusen, Jr.,† Bala Cynwyd, Pennsylvania
Senior Partner of Drinker, Biddle and Reath (Attorneys at law)

William M. Weaver, Jr.,† Smith, Nevada
Partner of Alex. Brown & Sons (Investment bankers)

Ira T. Wender,* New York, New York
President of Becker, Warburg, Paribas Group, Inc. (Investment bankers)

The Earl of Westmorland, K.C.V.O., London, England
Deputy Chairman of Sotheby & Company (Fine art auctioneers)

Robert C. Heim, New York, New York (Honorary Director)

Dennis K. Yorath, Edmonton, Alberta (Honorary Director)

*Member of the Executive Committee of the Board of Directors

†Member of the Audit Committee of the Board of Directors

Senior Officers

John M. Seabrook, Chairman and Chief Executive Officer

John G. Christy, President and Chief Operating Officer

John T. Jackson, Chairman of the Executive Committee

James J. Burke, Executive Vice President

Robert F. Calman, Executive Vice President

John B. Turbidy, Executive Vice President

Operating and Staff Executives

Jack Greenberg, Vice President, Taxes

Peter Keber, Vice President, Secretary and Senior Counsel

Victor J. Lang, Jr., Vice President, Government Affairs

Edward J. Larese, Vice President and Controller

Thomas O. Maxfield, III, Group Vice President

John A. Murphy, Vice President, Corporate Development

Magnus E. Robinson, Vice President and Treasurer

Arlen D. Southern, Vice President, Corporate Affairs

Anson W. H. Taylor, Jr., General Counsel

John J. Terry, Group Vice President

Harry W. Wilcox, Jr., Group Vice President

Robert W. Wolcott, Jr., Group Vice President

John Gilray Christy Elected President of IU

John Gilray Christy, 45, was elected president and a director of IU on January 23, 1978. He joined IU in 1972



as a group vice president and was promoted to executive vice president in 1976. During his six-year tenure, he has taken the lead in shaping the strategy for IU's growth in transportation services.

In Mr. Christy's first assignment as a group vice president, he was in charge of two major trucking companies—Ryder Truck Lines and Pacific Intermountain Express. Five years ago, P-I-E was a new acquisition for IU. Mr. Christy worked with the P-I-E management to accomplish a major turnaround. Today, P-I-E is approaching the stature of Ryder, which is presently the fastest growing firm in the industry.

Since ocean shipping was added to his responsibilities in May 1976, Mr. Christy has had an important role in strengthening the management of Go-taas-Larsen and developing new ap-

proaches to solving the critical problems that started with the oil embargo.

Before joining IU, he was president and chief operating officer of ITT World Directories Inc. During his seven years with ITT, he served in executive positions with the International Communications group and the corporate treasury department.

From 1960 until 1965, Mr. Christy was with the U.S. Development Loan Fund and the U.S. Agency for International Development, including assignments overseas in charge of lending.

A native of Silver Creek, N.Y., and a graduate of Dartmouth College, he served four years in the U.S. Navy as a carrier jet pilot before earning a master's degree in Asian studies at the University of California. He and his wife, Sally, and their two children, Andrew and Jennifer, live in Philadelphia.

Markets and Operations

Land Transportation

Ryder Truck Lines, Jacksonville, Fla.
Earl N. Hoekenga, Chairman
Thomas L. Mainwaring, President
Helm's Express, Irwin, Pa.
W. C. Bender, President
Byrns Motor Express, East Syracuse, N.Y.
L. E. Johnson, President
Pacific Intermountain Express, Oakland, Calif.
W. Doyle Beatenbough, President
P-I-E Transport, London, England
John J. Terry, Chairman

Ocean Shipping

Gotaas-Larsen Shipping Corp., New York and Oslo
Finn Grape, Chairman
Kenneth A. B. Trippe, President

Utility Services

Canadian Utilities Limited, Edmonton, Alberta
John E. Maybin, Chairman
Egerton W. King, President
General Waterworks Corp., Philadelphia, Pa.
Allen E. Rosenberg, President

Industrial Products and Services

Southwest Fabricating & Welding Co., Houston, Texas
Grover H. Lockwood, Chairman
Hills-McCanna Co., Carpentersville, Ill.
Marvin Altman, President
Ledeen Flow Control Systems, Inc., Sun Valley, Calif.
Howard L. Ledeen, Vice President and General Manager
Valve Systems International, Ltd., Cumbernauld, Scotland
Geoffrey D. Hunt, Managing Director
International Mill Service, Philadelphia, Pa.
Jack Bayer, President
IU Conversion Systems, Inc., Philadelphia, Pa.
B. Lawrence Seabrook, Jr., President
G. & W. H. Corson, Inc., Plymouth Meeting, Pa.
Augustus D. Lagomarsino, President

Distribution Services

Unijax, Inc., Jacksonville, Fla.
Walter L. Moore, Chairman
Biggers Brothers, Charlotte, N.C.
Howard Biggers, Jr., President
Codesco Inc., Philadelphia, Pa.
Richard V. Ritchie, President
Electric Supply Corp., Melrose Park, Ill.
J. Thomas O'Connor, President
The Gage Co., Pittsburgh, Pa.
James E. Montgomery, President
Taylor Engineering Corp., Detroit, Mich.
Robert W. Kennedy, President

Agribusiness Products and Services

C. Brewer and Co., Limited, Honolulu, Hawaii
John W. A. Buyers, President

Other

Echo Bay Mines Limited, Edmonton, Alberta
John Zigarlick, Jr., President
TAS Communications Services, Toronto, Ontario
Robert V. Harwood, President

1977 Financial Data

Principal Products and Services

Revenues: \$637.7 million
Operating earnings: \$44.5 million
Assets: \$264.8 million

IU's trucking companies are among the largest and most efficient motor carriers in the United States, serving nearly every major city through 551 terminals. Ryder and its autonomous Helm's and Byrns divisions serve the eastern, central and southeastern United States across 56,038 miles of authorized regular routes in 31 states; P-I-E operates from the East Coast to and along the West Coast across 45,513 miles in 39 states. P-I-E Transport provides international trucking and freight forwarding throughout Europe and many locations in the Middle East.

Revenues: \$166.1 million
Operating earnings: \$31.5 million
Assets: \$786.7 million

Gotaas-Larsen is one of the world's major independent ocean shipping companies. It transports liquefied natural gas (LNG), crude and refined petroleum, coal, chemicals, ore and grain; operates drilling rigs in the North Sea and cruise ships in the Caribbean; and offers maritime engineering, administrative and management consulting services.

Revenues: \$448.9 million
Operating earnings: \$78.3 million
Assets: \$944.3 million

Canadian Utilities, a 64%-owned subsidiary, supplies electricity to 385 communities and natural gas to 260 communities, mostly in the province of Alberta. General Waterworks, wholly owned by IU, provides water service to more than 300,000 United States customers in 15 states.

Revenues: \$205.6 million
Operating earnings: \$31.1 million
Assets: \$152.3 million

IU's energy-related manufacturing companies make valves, piping, flow control systems, pressure vessels and related components for the power, petroleum, chemical, gas processing and other industries. IU's three waste management services companies process slag and reclaim scrap for steel mills in 15 countries; market a service which converts pollutants from coal-burning power plants and other industrial wastes into stable materials for landfill and other uses; and quarry stone and manufacture lime and related materials for metallurgical and construction markets, pollution control and other applications.

Revenues: \$544.3 million
Operating earnings: \$3.5 million
Assets: \$177.1 million

IU's major distribution subsidiary, Unijax, supplies paper and related products, disposable items and janitorial supplies to printers, book publishers, industrial and commercial customers in 27 states. Other subsidiaries distribute frozen and dry food products to motels, restaurants, fast-food operations, schools, hospitals and others in five Southeastern states; mill supplies, piping and electrical supplies to industrial firms and contractors in seven Midwest and Mid-Atlantic states; and dental supplies, equipment and laboratory services to dentists, hospitals, dental laboratories and health care institutions in 26 states.

Revenues: \$236.3 million
Operating earnings: \$19.7 million
Assets: \$260.7 million

C. Brewer, 54% owned by IU, is a major producer of raw sugar and the world's leading producer and marketer of macadamia nuts and cardamom spice. It also grows other spices, rice, potatoes, coffee, and prawns; markets molasses, chemicals and fertilizers; and provides agronomics consulting and project management services worldwide.

Revenues: \$36.9 million
Operating earnings: \$5.1 million
Assets: \$45.3 million

IU's other markets include silver mining; telephone answering services for industry, business and individuals; real estate and land development activities; and oil and gas exploration and production in the United States, Canada and the North Sea.

Financial Review

This financial review incorporates Management's Discussion and Analysis of the Summary of Operations and comments on other financial matters. It should be read in conjunction with the operations summaries on pages 3-16 and 27-29 and the Financial Statements and Notes on pages 30-43.

Revenues and other income

IU International's consolidated revenues and other income increased by 16% to \$2,275.8 million in 1977, following an increase of 7% to \$1,957.6 million in 1976.

Land transportation: Revenues rose \$153.3 million, or 32%, to \$637.7 million in 1977.

Contributing to the increase were continued growth in motor freight industry tonnage, improved rates, significant gains in the special-commodities divisions, and further penetration of new and existing markets through acquisition of new route authorities and the opening of terminals.

In 1976, land transportation revenues rose by \$100.7 million, or 26%, to \$484.3 million. The increase in revenues resulted from an expanding United States economy, rate increases, and growth of the subsidiaries' market shares.

Ocean shipping: Revenues increased \$21.1 million, or 15%, to \$166.1 million in 1977, following an increase of \$1.4 million in 1976 and a decline of \$63.2 million in 1975.

Revenue increases in both 1977 and 1976 were reported from liquefied natural gas (LNG) carriers and passenger cruise ship operations. In 1977, revenues from offshore drilling rigs also were higher, largely because of the employment of two majority-owned rigs.

Offsetting these increases in both years was a decline in revenues generated by the tanker and bulk cargo fleet, where an overcapacity situation has led to unprofitable charter rates. The world tanker market has been depressed since mid-1974. Currently, five oil tankers are laid up, two of which are minority-owned and one of which is chartered-in.

All four of the subsidiary's drilling rigs, which were unemployed at year-end 1976, currently are chartered. The market for chartering of rigs has been depressed since offshore exploration leasing slowed down in 1975. There have been signs of improvement recently.

Net gains on sales of vessels were lower in 1977, following the significant increase of 1976.

Three of Gotaas-Larsen's four LNG carriers have 20-year charters to carry LNG from Abu Dhabi to Japan. Start-up prob-

lems at the liquefaction plant on Das Island, Abu Dhabi have prevented the full employment of all three ships as yet. A provision of each charter permits suspension of charter hire under certain conditions for a maximum of six months in any five-year period, with the off-hire periods being added to the end of the 20-year charter and with interest being paid on the charter hire postponed. The charterers and Gotaas-Larsen disagree as to whether the conditions that would allow suspension have occurred, and both parties have sought a solution in a London court. The outcome will have no significant impact on revenues or earnings over the lives of the charters.

Utility services: The combined revenues of Canadian Utilities (CU) and General Waterworks rose by \$91.3 million to \$448.9 million in 1977, an increase of 26%.

Revenues from CU's gas services rose 35% to \$299.6 million, reflecting rate increases granted during 1977 and a 12% increase in the volume of sales to industrial and residential customers. Natural gas sales in 1977 were 288 billion cubic feet, up from 258 billion cubic feet in 1976. Natural gas earnings were adversely affected by unusually mild Canadian weather, especially in the first quarter of the year, and by a write-off associated with a rejected pipeline proposal.

Revenues from CU's electric energy sales grew 11% to \$88.5 million. Electric sales increased 18% to 2.6 billion kilowatt-hours, including a spot sale of 223 million kilowatt-hours to the City of Edmonton.

Revenues of General Waterworks increased 9% to \$60.8 million, largely on the strength of a program of rate applications. Gains on divestments of selected operating units also increased 1977 revenues.

A year earlier, utility services revenues rose \$108.4 million, or 43%, to \$357.6 million. The full impact of rate increases awarded to IU's utilities during 1975 was reflected in 1976 results. Electric energy sales volume rose 8%; higher-than-normal temperatures limited natural gas sales volume to an increase of 4%.

Industrial products and services: Revenues increased \$38.0 million, or 23%, to \$205.6 million in 1977. Major factors in the increase were increased demand for the services of IU's waste management operating units and higher volume in energy-related manufacturing.

IU Conversion Systems received seven new contracts for its Poz-O-Tec system. Steel-mill slag processing and metals recovery operations at International Mill Service produced higher

revenues, largely as a result of strong non-United States activities. New locations in the United States and abroad also helped to boost revenues.

In 1976, industrial products and services group revenues declined by \$45.2 million, or 21%, to \$167.6 million. Three operating units were divested in 1975; the loss of revenues associated with these units, \$63.8 million, was partially offset by higher revenues resulting from the strong demand for piping, valves and pressure vessels. Despite lower steel production in the second half of 1976, IU's waste management operations produced a modest increase in 1976 revenues, partly because of renegotiated contracts in Europe.

Distribution services: Revenues of the distribution services group increased \$33.4 million, or 7%, to \$544.3 million in 1977. The paper and institutional food distribution units generated higher revenues as a result of greater market penetration, higher selling prices and improved economic conditions. These increases were offset by declines in industrial distribution revenues. The declines were caused mainly by the liquidation and disposition of three unprofitable units during the fourth quarter.

In 1976, distribution services revenues increased \$20.7 million, or 4%, to \$510.8 million. This modest increase resulted primarily from higher sales volumes and higher selling prices for paper and related products. Several subsidiaries were purchased in 1974, and one was sold in 1975.

Agribusiness products and services: C. Brewer's revenues were \$236.3 million in 1977, 7% lower than the previous year's \$254.6 million. The decline resulted primarily from disposition of building materials, construction and shipbuilding divisions that contributed revenues of \$16.1 million in 1976.

Revenues attributable to the Hawaii sugar crop were higher in 1977, reflecting the federal payments program which established a support price of 13½ cents per pound for that portion of the 1977 crop marketed before November 8. Revenues from Florida sugar operations were lower in 1977, reflecting price declines from early 1976 levels.

Gains on land sales were higher in 1977, reflecting the final payment on a \$6 million installment sale made in 1976.

Coffee, macadamia nut and spice operations produced higher revenues in 1977, but revenues from travel and tourism units declined. This drop resulted primarily from the completion of a hotel sale in 1977.

Revenues for the year 1976 were down 14%, a decline of \$41.5 million, to \$254.6 million even though acquisitions

made during the year added \$14.4 million to Brewer's revenues. A drop in sugar prices, produced by a worldwide sugar surplus, was the primary cause. During 1975, the two-year upward trend of sugar prices ended, and prices turned abruptly downward, dropping 77% from the 1974 peak. The market price fell below the costs of production for United States growers in 1975 and remained there. In addition, IU's revenues from this subsidiary were \$21.0 million lower in 1976 because of discontinued operations of construction and shipbuilding units.

Other operations: Revenues from other operations declined slightly to \$36.9 million from \$37.7 million in 1976. The 1976 revenues were down \$10.1 million, or 21%, from the level of 1975, when the sale of certain secondary oil and gas properties produced a gain of \$20.2 million. The 1976 decline was partially offset by silver mining improvements.

Consolidated costs of sales, other costs and expenses increased \$253.1 million, or 14%, in 1977, compared with an increase of \$170.5 million, or 10%, in 1976.

The land transportation group's operating costs and expenses rose in both 1977 and 1976 because of increased volume, higher wage costs, and increased promotional expenses associated with new terminal openings.

The ocean shipping subsidiary's operating costs and expenses rose in 1977 because of increased costs associated with vessels delivered in late 1976 and in 1977. Partially offsetting this increase were elimination of expenses associated with ships sold in the two years, reduced expenses associated with vessels in layup, and non-recurrence of a charter cancellation fee incurred in 1976. Operating costs and expenses decreased in 1976. The sale of vessels in both 1976 and 1975 and the layup of other ships combined to offset the cancellation charge on an inward charter of a 40%-owned tanker and the added costs—mostly depreciation—associated with new vessels.

In utility services, operating cost increases were caused mainly by increased natural gas costs, higher fuel and purchased power costs, and increased volume.

In the industrial products and services group, the operating costs of the metal recovery and the manufacturing subsidiaries rose in 1977 in proportion to their increased revenues. In 1976, these costs decreased in proportion to the revenue decline that resulted from the sales of three manufacturing units. IU Conversion Systems, as a developing business, operated at a loss in 1976 and prior years, when start-up costs were dominant. In 1977, the subsidiary obtained seven new contracts for its

Costs and expenses

Poz-O-Tec waste stabilization process and completed another contract begun earlier, resulting in its first profitable year.

The distribution services group's costs and expenses increased in 1977 in proportion to revenue gains. Although the operating margins of continuing industrial distribution operations were higher, the losses realized on liquidation or sale of three other units offset the improvement. In 1976, inflationary cost increases were greater than revenue gains, and the result was lower profit margins for most units.

The cost of agribusiness sales and other operating expenses were lower in 1977, reflecting divestment of certain operating units in 1977 and 1976, lower sugar plantation costs and lower molasses purchase costs. In 1976, the decline in agribusiness operating costs resulted primarily from the divestment of ship-building and construction operations. There were also substantial write-offs in 1975 related to land development projects.

In other operating units, costs and expenses rose in both 1977 and 1976. The increases stemmed largely from the higher production level and increased costs of silver mining. In 1976, labor costs in the telephone-answering unit rose, contributing to the increase.

Interest and debt expense

Interest and debt expense rose \$26.2 million, or 39%, to \$92.5 million in 1977. The increase resulted mainly from borrowings associated with additions to the ocean shipping fleet. Interest rates also rose during the year.

In 1976, the increase of \$10.4 million, or 19%, to \$66.3 million also resulted from higher levels of borrowing, which were partially offset by lower interest rates.

Foreign currency adjustments

Total consolidated foreign currency adjustments resulted in a gain of \$14.4 million in 1977, a loss of \$1.4 million in 1976 and a gain of \$7.1 million in 1975. These adjustments were primarily from the translation of the foreign-currency, long-term debt of our subsidiaries, principally Canadian Utilities, at year-end exchange rates, as required by Financial Accounting Standard No. 8. The exchange rate for the Canadian dollar was \$.915, \$.99 and \$.985 at December 31, 1977, 1976 and 1975, respectively. In addition, foreign currency adjustments with respect to the long-term debt and commitments of other subsidiaries suffered from the weakening of the United States dollar against other major currencies, including the Japanese yen, Norwegian krone and German deutsche mark.

The quarterly effect of foreign currency adjustments on IU's earnings per share over the past two years is shown in the table to the left.

Foreign Currency Adjustments* Effect Per Share				
1977			1976	
Quarter	Cumulative		Quarter	Cumulative
\$.16	\$.16	First	\$(.19)	\$(.19)
(.01)	.15	Second	(.11)	(.30)
.08	.23	Third	(.04)	(.34)
.06	.29	Fourth	.31	(.03)

*After tax and excluding minority interest

Income taxes increased by \$19.0 million to \$38.8 million in 1977, following a decrease of \$8.2 million to \$19.8 million in 1976. Agribusiness operations, especially the change from a loss in 1976 to a profit in 1977, accounted for \$15.7 million of the increase and \$13.8 million of the decrease.

Income taxes

Minority interest increased by \$18.9 million in 1977 to a total of \$26.8 million. In 1976, minority interest decreased by \$7.2 million to \$7.9 million.

Minority interest

C. Brewer's rebound from a loss in 1976 to a profit in 1977 accounted for \$6.5 million of the increase in minority interest. The portion of C. Brewer's loss attributable to minority shareholders decreased minority interest by \$8.1 million in 1976.

The minority's proportionate share of Canadian Utilities' net earnings increased by \$12.5 million in 1977 and \$1.2 million in 1976. While CU had increased Canadian dollar earnings in 1977, it reported significantly higher net earnings in United States dollars for the year. This United States dollar increase, in which the minority owners also participated, resulted largely from the translation at year-end exchange rates of CU's long-term debt into United States dollars.

Total invested capital, including minority interest in subsidiaries, increased by \$204.9 million, or 11%, to \$2,114.0 million in 1977. Shareholders' equity increased by \$32.8 million, or 5%, to \$654.1 million, and minority interest in subsidiaries increased by \$37.5 million, or 16%, to \$265.8 million. Total debt increased by \$134.5 million, or 13%, to \$1,194.1 million.

Financial position

Total assets increased by \$262.6 million, or 11%, to \$2,659.1 million at year-end 1977. The primary increases were in assets of the ocean shipping and utility services groups.

Capital expenditures totaled \$397.1 million in 1977, up 7% from \$370.0 million in 1976. For 1978, the company plans capital expenditures of \$280.6 million, a 29% reduction from 1977. Most of the planned expenditures are for utility services, land transportation and ocean shipping subsidiaries.

Capital expenditures

Retained cash flow and new financing at the operating company level are the principal sources of financing for all of IU's capital expenditures.

Capital expenditures planned for utilities are for electric generation and distribution systems, gas transmission and distribution systems, and water and sewage facilities.

The land transportation group's capital expenditures are primarily for truck and trailer purchases and terminal facility improvements and additions.

Capital Expenditures In millions	Actual 1977	Planned 1978
Utility services: Electric	\$ 41.3	\$ 50.8
Gas	49.6	53.7
Water	22.3	20.2
	113.2	124.7
Land transportation	52.8	70.0
Industrial products and services	22.0	26.5
Ocean shipping	196.6	35.6
Distribution services	4.7	6.5
Agribusiness products and services	6.7	13.9
Other	1.1	3.4
Total capital expenditures	\$397.1	\$280.6

Financings

Capital expenditures for the industrial group are primarily for equipment purchases by International Mill Service.

For ocean shipping, capital expenditures relate to vessels scheduled for delivery in 1978 and beyond. These commitments include two LNG carriers, one liquefied petroleum gas (LPG) carrier and one product/chemical carrier.

The distribution services group's expenditures are for equipment purchases and warehouse facilities.

In the agribusiness products and services group, capital expenditures include normal replacement items for all sectors of C. Brewer's operations; development expenditures for prawns and guava; and further expansion of macadamia nut production.

IU and its subsidiaries closed approximately \$275 million of new financing in 1977. Financings completed during the year included public offerings in both the Canadian and Eurobond markets, short- and medium-term bank credits, ship mortgage financing, and institutional and private placements in both the Canadian and United States markets.

In keeping with IU's long-standing policy, nearly all financing was done at the operating company level, based on the credit capacity of each subsidiary without the guarantee of the parent corporation.

Major financings completed at Gotaas-Larsen included long-term mortgage financing totaling \$158.4 million for two of its LNG carriers, "Golar Freeze" and "Khannur", which were delivered in 1977. Financing has been completed for the only newbuilding delivery in 1978, a product/chemical carrier.

Financings totaling \$55.0 million were completed by Canadian Utilities during the year, including a \$25.0 million private debenture offering and a \$30.0 million preferred stock offering. Both transactions were from Canadian sources in Canadian dollars.

Other major financings during the year included a \$26.0 million private placement by Ryder Truck Lines and a \$35.0 million public Eurobond offering. Short- and medium-term bank credits were obtained for various operating companies.

In February 1978, a \$91 million, eight-year revolving credit and term loan was closed by one of the corporate finance companies, replacing a portion of its short-term credit facilities. Unused credit facilities at year-end 1977 were \$288 million.

Five-Year Financial Summary

In thousands, except per share data

		1977	1976	1975	1974	1973
Operations summary	Revenues and other income	\$2,275,780	\$1,957,648	\$1,823,355	\$1,981,703	\$1,547,652
	Cost of sales, other costs and expenses	2,072,835	1,819,770	1,649,279	1,757,652	1,372,352
	Earnings before interest, foreign currency adjustments and taxes	202,945	137,878	174,076	224,051	175,300
	Interest and debt expense	92,483	66,314	55,868	64,417	51,225
	Foreign currency adjustments	(14,387)	1,443	(7,128)	(2,024)	8,224
	Income taxes	38,805	19,813	28,048	53,299	32,052
	Minority interest	26,803	7,863	15,107	20,719	8,688
	Net earnings	\$ 59,241	\$ 42,445	\$ 82,181	\$ 87,640	\$ 75,111
Earnings per share	Primary	\$1.75	\$1.25	\$2.50	\$2.68	\$2.35
	Assuming full dilution	\$1.66	\$1.18	\$2.31	\$2.43	\$2.11
Other per share data	Dividends per common share	\$.90	\$.875	\$.85	\$.80	\$.75
	Shareholders' equity ⁽¹⁾	\$19.04	\$18.13	\$17.81	\$16.31	\$14.37
	Year-end closing price of common stock	11¼	11⅞	9¾	8⅞	18½
Financial position	Total assets	\$2,659,098	\$2,396,518	\$2,109,337	\$1,984,654	\$1,669,544
	Total debt	\$1,194,054	\$1,059,535	\$876,583	\$837,659	\$732,293
	Minority interest in subsidiaries	\$265,809	\$228,316	\$167,544	\$124,322	\$109,456
	Shareholders' equity	\$654,101	\$621,257	\$606,585	\$552,477	\$487,912
Other statistics	Property, plant and equipment	\$2,322,641	\$2,042,032	\$1,722,722	\$1,607,742	\$1,435,250
	Capital expenditures	\$397,091	\$369,964	\$297,405	\$252,176	\$159,243
	Average common and common equivalent shares	33,044	32,805	32,308	32,097	31,186

⁽¹⁾Based on common stock and Special Stock, Series A at year-end.

Sources of Revenues and Earnings

In thousands, except per share data

	1977	
	Revenues	Operating Earnings
Contributions by major market:		
Utility services:		
Electric	\$ 88,484	\$ 34,145
Gas	299,606	26,375
Water	60,792	17,794
	<u>448,882</u>	<u>78,314</u>
Land transportation	637,652	44,543
Industrial products and services	205,602	31,116
Ocean shipping	166,094	31,546
Distribution services	544,269	3,476
Agribusiness products and services	236,343	19,677
Other	36,938	5,083
Revenues	\$2,275,780	
Operating earnings		213,755
Corporate expenses		10,810
Interest and debt expense		92,483
Foreign currency adjustments		(14,387)
Income taxes		38,805
Minority interest		26,803
Net earnings		\$ 59,241
Primary earnings per share		\$1.75

1976		1975		1974		1973	
Revenues	Operating Earnings	Revenues	Operating Earnings	Revenues	Operating Earnings	Revenues	Operating Earnings
\$ 79,441	\$ 32,294	\$ 57,224	\$ 22,354	\$ 47,587	\$ 16,668	\$ 39,574	\$ 17,073
222,413	27,544	143,051	28,023	94,473	19,001	86,562	21,095
55,744	16,185	48,949	14,105	45,416	13,743	39,272	11,838
357,598	76,023	249,224	64,482	187,476	49,412	165,408	50,006
484,340	31,235	383,666	18,822	377,659	16,777	346,198	14,722
167,561	20,398	212,806	24,121	264,456	20,121	228,485	7,935
145,017	14,304	143,592	10,122	206,767	47,677	212,481	87,208
510,835	4,254	490,181	19,760	605,873	21,767	390,517	13,604
254,640	(8,545)	296,151	20,391	302,445	63,979	183,009	10,661
37,657	8,988	47,735	24,335	37,027	12,675	21,554	123
\$1,957,648		\$1,823,355		\$1,981,703		\$1,547,652	
	146,657		182,033		232,408		184,259
	8,779		7,957		8,357		8,959
	66,314		55,868		64,417		51,225
	1,443		(7,128)		(2,024)		8,224
	19,813		28,048		53,299		32,052
	7,863		15,107		20,719		8,688
	\$ 42,445		\$ 82,181		\$ 87,640		\$ 75,111
	\$1.25		\$2.50		\$2.68		\$2.35

Financial Statements

Consolidated Statements of Earnings

In thousands,
except per share data

	For the years ended December 31,	1977	1976
Revenues and other income		\$2,275,780	\$1,957,648
Costs and expenses:			
Cost of products sold, other operating costs and expenses, excluding depreciation and amortization		1,694,595	1,483,961
Selling, general and administrative expenses, excluding depreciation and amortization		272,045	251,548
Depreciation and amortization		106,195	84,261
Interest and debt expense		92,483	66,314
Foreign currency adjustments		(14,387)	1,443
Income taxes		38,805	19,813
Minority interest		26,803	7,863
		2,216,539	1,915,203
Net earnings		\$ 59,241	\$ 42,445
Earnings per share:			
Primary		\$1.75	\$1.25
Assuming full dilution		\$1.66	\$1.18

Consolidated Statements of Additional Paid-In Capital

In thousands

Amount at beginning of year	\$ 128,968	\$ 125,610
Add (deduct):		
Capital in excess of par or stated value of shares issued upon:		
Conversion of Special Stock, Series A into common	2,924	3,798
Conversion of preferred stock into common	785	822
Exercise of employee stock options	112	—
Other adjustments, principally relating to subsidiaries	1,483	(1,262)
Amount at end of year	\$ 134,272	\$ 128,968

Consolidated Statements of Retained Earnings

In thousands

Amount at beginning of year	\$ 435,036	\$ 421,811
Net earnings	59,241	42,445
	494,277	464,256
Deduct (add):		
Dividends:		
Preferred	1,268	1,348
Common (per share: 1977-\$0.90; 1976-\$0.875)	27,069	25,586
Reissuance of treasury stock	(42)	2,286
	28,295	29,220
Amount at end of year	\$ 465,982	\$ 435,036

Certain items have been reclassified to conform to current classifications.

See accompanying Notes to Financial Statements.

**Consolidated
Balance
Sheets**

In thousands

	December 31,	1977	1976
Assets			
Current assets:			
Cash, including certificates of deposit and commercial paper (1977-\$32,142; 1976-\$37,309)		\$ 90,389	\$ 111,092
Accounts receivable, less allowance (1977-\$9,651; 1976-\$8,347)		324,924	269,431
Inventories		161,150	177,452
Prepaid expenses and other current assets		33,839	27,824
Total current assets		610,302	585,799
Long-term receivables, restricted cash deposits and investments		160,676	156,158
Property, plant and equipment		2,322,641	2,042,032
Less accumulated depreciation and amortization		519,499	472,924
Net property, plant and equipment		1,803,142	1,569,108
Deferred charges, less amortization		29,593	24,381
Intangibles, net, and other assets		55,385	61,072
Total assets		\$2,659,098	\$2,396,518
Liabilities and Shareholders' Equity			
Current liabilities:			
Notes payable		\$ 26,500	\$ 47,737
Accounts payable and accrued liabilities		304,717	281,201
Income taxes		24,027	8,195
Long-term debt—current maturities		115,343	87,441
Total current liabilities		470,587	424,574
Long-term debt, excluding current maturities		1,052,211	924,357
Other liabilities		91,541	87,760
Deferred income taxes		25,594	24,516
Contributions in aid of utility construction		99,255	85,738
Minority interest in subsidiaries		265,809	228,316
Shareholders' equity:			
Series preferred stock		23,768	24,672
Series preference stock		21,707	25,292
Common stock		38,719	37,925
Additional paid-in capital		134,272	128,968
Retained earnings		465,982	435,036
		684,448	651,893
Less shares in treasury, at cost		30,347	30,636
Total shareholders' equity		654,101	621,257
Total liabilities and shareholders' equity		\$2,659,098	\$2,396,518

Certain items have been reclassified to conform to current classifications.

See accompanying Notes to Financial Statements.

**Consolidated
Statements of
Changes in
Financial
Position**
In thousands

	For the years ended December 31,	1977	1976
Sources of funds:			
Net earnings		\$ 59,241	\$ 42,445
Add net charges not requiring current funds, principally depreciation, amortization, minority interest, etc.		119,966	77,020
Provided from operations		179,207	119,465
Disposition of property, plant and equipment		67,589	48,877
Disposition of other noncurrent assets		17,013	11,599
Issuance of long-term debt		339,930	348,249
Increase in other liabilities		15,807	16,838
Contributions in aid of utility construction		15,612	14,908
Issuance of capital stock, including treasury stock		1,030	951
Issuance of capital stock by a subsidiary		26,068	62,395
Total sources		662,256	623,282
Uses of funds:			
Purchase of property, plant and equipment		397,091	369,964
Acquisition of other noncurrent assets		42,710	52,766
Reduction of long-term debt		212,076	180,750
Reduction of other liabilities		3,160	3,300
Redemption and conversion of preferred stock		904	947
Dividends on preferred and common stock		28,337	26,934
Other		(512)	532
Total uses		683,766	635,193
Decrease in working capital		\$(21,510)	\$(11,911)
Changes in working capital:			
Cash		\$(20,703)	\$ (6,543)
Accounts receivable, less allowance		55,493	(18,396)
Inventories		(16,302)	19,920
Prepaid expenses and other current assets		6,015	348
Total		24,503	(4,671)
Notes payable		(21,237)	(4,700)
Accounts payable and accrued liabilities		23,516	16,321
Income taxes		15,832	(24,534)
Long-term debt—current maturities		27,902	20,153
Total		46,013	7,240
Decrease in working capital		\$(21,510)	\$(11,911)

Certain items have been reclassified to conform to current classifications.

See accompanying Notes to Financial Statements.

Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and substantially all of its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. Investments in unconsolidated majority-owned subsidiaries and investments in companies and joint ventures owned more than 20% but less than 50% are accounted for on the equity basis, and the appropriate portion of the earnings of such companies is included in consolidated earnings.

Inventories

Inventories generally are stated at the lower of cost or market. Due to diversified operations, several bases of determining cost are used.

Merchandise and commodities inventories of a 54%-owned subsidiary include items valued on the last-in, first-out (LIFO) basis with an aggregate cost of \$6,214,000 and \$6,860,000 at December 31, 1977 and 1976, respectively, which is approximately \$5,117,000 and \$7,775,000, respectively, less than the cost of such inventories valued on the first-in, first-out (FIFO) basis.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Depreciation is provided principally on the straight-line basis, except for certain ocean shipping subsidiaries which use the declining-balance method, over the estimated useful lives of the related assets. Upon sale or retirement of non-utility properties, costs and related depreciation are eliminated and gains or losses are recorded. Upon sale or retirement of depreciable utility properties, costs are transferred to accumulated depreciation and no gain or loss is recognized.

Certain of the Corporation's non-utility subsidiaries have established policies of capitalizing interest costs, at approximate current borrowing rates, incurred in connection with construction or development of fixed assets, mainly ocean vessels, in order to distribute such costs over the revenue-producing lives of the assets.

Interest and other overhead costs of \$15,070,000 in 1977 and \$16,309,000 in 1976,

relating principally to the construction of utility plant and vessels, were capitalized.

Intangibles

Intangibles consist of: (a) trucking subsidiaries operating rights; (b) net excess of cost of investments in subsidiaries over underlying net assets; and (c) other intangibles.

Intangibles having a limited life are amortized over their estimated useful lives. The excess of the cost of investments in subsidiaries over net assets of companies acquired is not being amortized, except that portion relating to companies acquired after October 31, 1970, as long as there is no present indication that such excess has a determinable life or existence.

Pension Plans

The Corporation and certain of its subsidiaries have various insured or trustee pension plans, some of which require employee contributions. These plans generally provide for normal retirement at age 65. The unfunded past and prior service liabilities under such plans are amortized over periods not exceeding 40 years. It is the Corporation's general policy to fund pension costs accrued.

At December 31, 1977, based on the latest actuarial reports, the total unfunded past and prior service liabilities amounted to approximately \$55,271,000 and unfunded vested benefits were estimated to be \$11,522,000. Total pension costs charged against earnings during the years ended December 31, 1977 and 1976 were \$14,938,000 and \$12,536,000, respectively.

Income Taxes

Provision is made for deferred income taxes and future income tax benefits applicable to timing differences between book and taxable income, except that certain utility subsidiaries are claiming depreciation and certain other expenses for income tax purposes in excess of the amounts recorded in the accounts without providing for the related income tax deferral. In setting rates, these utilities recover only income taxes payable currently.

Certain subsidiaries operate in countries where their earnings are substantially free of taxation or are taxed at rates effectively lower

than in the United States. Income taxes have been provided on that portion of the earnings of such subsidiaries considered not to be continuously reinvested outside the United States.

Investment tax credits are accounted for by the flow-through method, except that utility subsidiaries allocate the credits over the depreciable lives of the related assets.

Earnings Per Share

Primary earnings per share, computed after deducting the dividend requirement on preferred stock, are based on the average number of shares of both common and Special Stock, Series A outstanding each year, and the dilutive

effect of stock option plans and warrants. The Special Stock, Series A has been included using 2.9604 and 2.8466 common shares of the Corporation for 1977 and 1976, respectively, the applicable conversion rates.

Fully-diluted earnings per share reflect, in addition to the primary computation, (a) the conversion of convertible preferred stock and convertible bonds, (b) the elimination of the dividend requirements on such convertible preferred stock and the interest, net of income taxes, applicable to the convertible bonds, and (c) the conversion of Special Stock, Series A at the rates in effect 10 years after each period.

Business Combinations and Dispositions

During 1977 and 1976, the Corporation acquired several small companies in purchase transactions for notes and cash amounting to an aggregate consideration of \$765,000 and \$4,882,000, respectively. The operations of these companies are not significant.

During the two years ended December 31, 1977, the Corporation disposed of three industrial distribution companies, two hotels, four shipping companies, the shipbuilding, con-

struction and building materials divisions of a subsidiary and certain other small companies. The contribution to revenues and net earnings, excluding gains and losses on disposition, of such companies for the years ended December 31, 1977 and 1976 was as follows:

	1977	1976
Revenues	\$53,905,000	\$106,826,000
Net loss	(3,492,000)	(6,346,000)

Geographic Information

A summary of significant items with respect to operations in major geographic areas is as follows:

	Revenues	Net earnings	Working capital	Total assets
1977:				
Canada	\$ 420,556,000	\$29,287,000	\$ 1,565,000	\$ 727,933,000
International (ocean shipping)	166,094,000	(1,589,000)	(25,410,000)	786,680,000
Other non-United States	116,757,000	4,903,000	12,542,000	99,009,000
Total non-United States	703,407,000	32,601,000	(11,303,000)	1,613,622,000
United States	1,572,373,000	26,640,000	151,018,000	1,045,476,000
Total	\$2,275,780,000	\$59,241,000	\$139,715,000	\$2,659,098,000
1976:				
Canada	\$ 331,940,000	\$21,722,000	\$ 7,500,000	\$ 648,772,000
International (ocean shipping)	145,017,000	2,368,000	(32,535,000)	602,776,000
Other non-United States	88,454,000	466,000	14,360,000	93,341,000
Total non-United States	565,411,000	24,556,000	(10,675,000)	1,344,889,000
United States	1,392,237,000	17,889,000	171,900,000	1,051,629,000
Total	\$1,957,648,000	\$42,445,000	\$161,225,000	\$2,396,518,000

Operations in Canada relate principally to electric and gas utility services. On its major routes, the ocean shipping fleet transports oil from the Middle East, Indonesia, Nigeria and Venezuela to Great Britain, North America, Eu-

rope and Japan, and LNG from Abu Dhabi to Japan. Its offshore drilling rigs are employed in the North Sea. The cruise ships operate principally in the Caribbean area. Corporate assets are located within the United States.

Income Presentation

Included in revenues and other income are net product sales of \$958,120,000 and \$910,938,000 for 1977 and 1976, respectively.

Included in other income are the following significant items:

	1977	1976
Interest and dividends	\$7,802,000	\$7,322,000
Gain on ships sold	6,295,000	7,402,000
Gain (loss) on sale or disposition of investments and certain other assets	(3,522,000)	6,108,000
Gain on sale of unutilized land	3,793,000	1,010,000
Operations of divested subsidiaries	(884,000)	(6,687,000)

During 1977, the Corporation sold or liquidated several subsidiaries and certain other assets at a loss of \$3,522,000 after application of reserves of \$7,157,000 provided in prior years. Income tax benefits of \$2,634,000 have been recorded with respect to these dispositions.

During 1976, the Corporation sold its investment in a division of a subsidiary and certain

other properties resulting in a gain of \$5,048,000. Income taxes of \$2,352,000 have been recorded with respect to these dispositions.

Income taxes recorded in 1977 and 1976 with respect to the sale of unutilized land by the Corporation's 54%-owned subsidiary amounted to \$1,955,000 and \$582,000, respectively.

The pretax operating results of divested subsidiaries have been included in other income from the respective dates the Corporation committed itself to dispose of the companies.

In December 1976, an inward-charter on a 40%-owned tanker in layup was cancelled by an ocean shipping subsidiary. The cancellation charge amounted to approximately \$3,704,000, net of \$2,470,000 which represents the subsidiary's equity interest. The total cancellation fee has been included in other operating costs and expenses in the consolidated statements of earnings. No tax benefits were recorded with respect to this charge.

Inventories

The summary of inventories at December 31, 1977 and 1976 is shown in the table to the right.

	1977	1976
Finished products	\$ 64,891,000	\$ 73,667,000
Work in process	12,589,000	10,574,000
Raw materials and supplies	40,703,000	42,536,000
Merchandise and commodities	39,066,000	44,327,000
Other	3,901,000	6,348,000
	\$161,150,000	\$177,452,000

**Long-Term
Receivables,
Restricted
Cash Deposits
and Investments**

The total carrying values of long-term receivables, restricted cash deposits and investments at December 31, 1977 and 1976 are shown in the following table:

	1977	1976
Long-term receivables	\$ 37,878,000	\$ 33,544,000
Restricted cash deposits	26,521,000	21,917,000
Land held for sale or development	20,355,000	25,171,000
Unconsolidated subsidiaries	17,778,000	16,614,000
Joint ventures, principally partnerships in vessels	34,442,000	34,082,000
Cooperatives	22,322,000	20,363,000
Other investments	5,243,000	9,699,000
Provision for loss	(3,863,000)	(5,232,000)
	\$160,676,000	\$156,158,000

Dividends received from unconsolidated subsidiaries, joint ventures and cooperatives were \$4,561,000 in 1977 and \$6,493,000 in 1976.

In certain joint ventures in which certain ocean shipping subsidiaries are participants, a director of the Corporation, until May 1976, and certain directors and officers of the ocean

shipping subsidiaries are venture participants. The ocean shipping subsidiaries' equity in the operating losses of these ventures was \$641,000 in 1976, and the directors' and officers' equity in the operating losses was \$574,000. In 1977, the related amounts were not material.

**Property,
Plant and
Equipment**

A summary of property, plant and equipment at December 31, 1977 and 1976 is shown in the following table:

	1977	1976
Utility services	\$1,012,761,000	\$ 916,334,000
Land transportation	241,108,000	202,225,000
Industrial products and services	121,552,000	103,050,000
Ocean shipping	722,741,000	569,532,000
Distribution services	42,296,000	44,420,000
Agribusiness products and services	145,680,000	170,514,000
Other	36,503,000	35,957,000
	\$2,322,641,000	\$2,042,032,000

Included above are two tankers with a depreciated cost of approximately \$72,000,000 which were in layup at December 31, 1977. In

addition, two minority-owned tankers and one inward-chartered tanker were also in layup.

Debt

Short-term notes payable at December 31, 1977 and December 31, 1976 have an average interest rate of 9% and 7%, respectively, and represent borrowings by subsidiaries under lines of credit of which \$1,050,000 and \$2,330,000, respectively, are secured. During 1977 and 1976, the maximum borrowings under short-term credit arrangements amounted to \$69,000,000 and \$62,000,000, respectively; the average month-end borrowings under these agreements were \$44,000,000 and \$37,000,000, respectively, and had weighted

average interest rates of 9% and 8%, respectively. At December 31, 1977, unused short-term credit facilities amounted to \$155,000,000 and unused long-term credit facilities amounted to \$133,000,000.

Long-term debt at December 31, 1977 and 1976 payable by subsidiaries is summarized in the following table. Interest rates on approximately \$394,800,000 of long-term debt outstanding at December 31, 1977 are based on United States prime, Eurodollar, or other fluctuating interest rates.

	1977	1976
First mortgage bonds:		
Due 1977 to 1996; 3½% to 9¾%		
(weighted average interest rate 6.4% in both years)	\$ 112,743,000	\$ 121,506,000
Other:		
Secured:		
Due 1977 to 2006; 5% to 15%		
(weighted average interest rate 1977-8.7%; 1976-7.6%)	552,250,000	395,735,000
Unsecured:		
Due 1977 to 2002; 4¾% to 13½%		
(weighted average interest rate 1977-9.0%; 1976-8.3%)	502,561,000	494,557,000
	1,167,554,000	1,011,798,000
	115,343,000	87,441,000
Less current maturities		
	\$1,052,211,000	\$ 924,357,000

The mortgage bonds and secured debt are subject to various indentures and agreements requiring, among other things, either the mortgaging of properties, the pledging of investments in subsidiaries, or in certain instances a combination of both. At December 31, 1977, property plant and equipment with a depreciated cost of \$751,000,000 secured such debt. Sinking fund requirements and installments of long-term debt maturing in the years 1979, 1980, 1981 and 1982 amount to approximately \$164,191,000, \$133,091,000, \$119,044,000 and \$108,977,000, respectively, after deducting bonds which have been repurchased and excluding requirements which may be satisfied by certification of property additions.

The Corporation maintains cash balances at certain banks related, in part, to the outstanding balance of certain bank loans and, in part, to anticipation of future credit negotiations. At December 31, 1977, the bank-collected balance under such arrangements, as reported by the respective banks, was approximately \$57,000,000 and the related book balance was approximately \$31,000,000. The aggregate av-

erage bank-collected balance maintained during 1977, as reported by the respective banks, was approximately \$48,000,000 and the related average month-end book balance was approximately \$34,000,000. These funds are not subject to withdrawal restrictions.

The bond indentures and note agreements executed by the Corporation and certain subsidiaries require the maintenance of specified ratios of consolidated net worth and total capitalization, as therein defined, and limit the payment of dividends on capital stock of the Corporation. Under the most restrictive covenant, which specifies capitalization requirements, approximately \$112,000,000 of the consolidated retained earnings at December 31, 1977 was free from restriction.

In February 1978, a subsidiary of the Corporation entered into a long-term credit agreement providing for loans up to \$91,000,000. Interest is payable based on United States prime. If this agreement had been in effect at December 31, 1977, unused short-term and unused long-term credit facilities would have been \$72,000,000 and \$224,000,000, respectively.

Income Taxes

The components of the provision for income taxes for the years ended December 31, 1977 and 1976, are shown in the table to the right.

	1977	1976
Current:		
Federal	\$12,366,000	\$ 4,461,000
State and local	3,045,000	2,220,000
Non-United States	20,726,000	15,606,000
Investment tax credit	(5,069,000)	(3,854,000)
	31,068,000	18,433,000
Deferred:		
Federal	7,649,000	2,330,000
State and local	1,288,000	(199,000)
Non-United States	(1,200,000)	(751,000)
	7,737,000	1,380,000
	\$38,805,000	\$19,813,000

The sources of the differences between earnings for financial statement purposes and tax purposes and the tax effects are as follows:

	1977	1976
Excess of tax over book depreciation	\$7,937,000	\$1,063,000
Excess of book over tax (tax over book) revenues from sugar sales (included in current liabilities)	3,713,000	(769,000)
Recovery of loss on investments and other assets	3,467,000	4,341,000
Excess of tax over book (book over tax) expenses for compensation and related charges	32,000	(1,543,000)
Foreign tax credits	(3,079,000)	—
Unrealized foreign currency exchange loss	(1,811,000)	(60,000)
Other	(2,522,000)	(1,652,000)
	\$7,737,000	\$1,380,000

The Corporation's effective tax rates of 39.6% and 31.8% for the years 1977 and 1976, respectively, were less than the United States income tax rate of 48.0% for the reasons shown in the table to the right.

It is the Corporation's policy not to provide income taxes on undistributed earnings of non-United States subsidiaries, since such earnings are being continuously reinvested in plant and vessels outside the United States. At December 31, 1977, the Corporation had not provided income taxes on \$172,000,000 of such earnings.

	1977	1976
Federal income tax rate	48.0%	48.0%
Earnings from non-United States subsidiaries, continuously reinvested outside the United States	(1.0)	(.6)
Earnings taxed below United States rates	(1.4)	(5.8)
Accelerated depreciation and other expenses, claimed by utility operations	(7.7)	(11.6)
Investment tax credit	(5.2)	(6.2)
Minority interest with no tax effect	13.1	6.1
State and local income taxes, net of federal tax benefit	2.3	1.7
Capital gains rate	(.5)	.5
Foreign currency translation	(8.9)	1.1
Other	.9	(1.4)
Effective tax rate	39.6%	31.8%

The authorized and issued capital stock of the Corporation at December 31, 1977 and 1976 is summarized below:

	Issued at December 31,		1977		1976	
			Shares	Stated or par value	Shares	Stated or par value
Series preferred stock, without par value:						
Authorized: 4,814,708 shares						
Issued:						
\$5.00 series (in treasury at both dates—3,760 shares)			93,302	\$ 9,563,000	93,302	\$ 9,563,000
\$1.25 convertible series (in treasury at both dates—304,532 shares) with aggregate liquidation value at December 31, 1977 of \$23,433,000			937,307	14,205,000	996,963	15,109,000
			1,030,609	23,768,000	1,090,265	24,672,000
Series preference stock, without par value:						
Authorized: 5,691,114 shares						
Issued: Special Stock, Series A (in treasury at both dates—176,371 shares)			1,121,153	21,707,000	1,306,307	25,292,000
Common stock, par value \$1.25 per share:						
Authorized: 60,000,000 shares (reserved for conversion of preferred stock—1,499,691 shares; for conversion of Special Stock, Series A—4,913,117 shares; for conversion of bonds of a subsidiary—176,938 shares; for exercise of warrants attached to bonds of a subsidiary—180,000 shares; and for stock option and stock purchase plans—2,695,665 shares)						
Issued (in treasury, 1977—738,644 shares; 1976—751,775 shares)			30,974,861	38,719,000	30,340,103	37,925,000

The holders of preferred stock are entitled to cumulative dividends at the respective rates set out in the titles of the various series and have voting rights. The holders of the \$5.00 Preferred Stock, upon liquidation or redemption, are entitled to receive the stated value plus accrued and unpaid dividends. The \$1.25 Convertible Preferred Stock is redeemable, at the Corporation's option, at \$25 per share. Each share of the \$1.25 Convertible Preferred Stock is convertible into 1.6 common shares.

Holders of Special Stock, Series A are not entitled to receive dividends; they have voting

rights and on liquidation are entitled to receive \$15 per share subject to the liquidation rights of the preferred shareholders. The Special Stock, Series A is convertible into 2.9604 and 2.8466 shares of common stock through December 31, 1978 and 1977, respectively, after which the conversion rates increase annually to a maximum of 4.3822 common shares on January 1, 1988. It is redeemable, at the Corporation's option, after December 31, 1977 at \$70 per share.

Changes in capital stock during the years ended December 31, 1977 and 1976 are summarized as follows:

	1977			1976		
	Preferred	Special Stock, Series A	Common	Preferred	Special Stock, Series A	Common
Shares issued at beginning of year	1,090,265	1,306,307	30,340,103	1,152,768	1,544,633	29,587,893
Conversion of Special Stock, Series A	—	(185,154)	526,933	—	(238,326)	652,210
Conversion of preferred stock	(59,656)	—	95,442	(62,503)	—	100,000
Exercised under stock option plan	—	—	12,383	—	—	—
Shares issued at end of year	1,030,609	1,121,153	30,974,861	1,090,265	1,306,307	30,340,103

Changes in treasury stock during the years ended December 31, 1977 and 1976 consisted of the issuance of 13,131 shares and 122,776 shares, respectively, of common stock in settlement of a subsidiary acquisition. In addition, 492 shares of treasury stock were issued in 1976 for the employee stock purchase plan.

At December 31, 1977, a wholly-owned subsidiary had outstanding \$2,831,000 principal amount of bonds due in 1986, which are con-

vertible prior to maturity into common stock of the Corporation at \$16 per share. In addition, at December 31, 1977 that subsidiary had outstanding \$3,000,000 principal amount of bonds due in 1978 originally issued with 15,000 warrants entitling the holder to subscribe to 12 shares of common stock of the Corporation not later than April 30, 1978 at an aggregate price of \$258.

Stock Options

Options to certain officers and employees of the Corporation and its subsidiaries were outstanding at December 31, 1977 and 1976 pursuant to Qualified Stock Option Plan C, a Non-qualified Stock Option and Stock Unit Award Plan, and Stock Option Plan D. Options are exercisable in varying amounts over periods from one to 10 years from the date of grant, at prices from 85% to 100% of the fair market value of the stock at the date of grant. Shares under option at December 31, 1977 and 1976 represented 3% and 2%, respectively, of outstanding common stock on such dates.

The changes in the outstanding options during 1977 and 1976 were as follows:

Common stock	1977	1976
Shares under option at beginning of year	705,236	726,914
Granted	206,500	27,250
Exercised	(12,383)	—
Converted to stock units	(89,600)	—
Cancelled or expired	(25,745)	(48,928)
Shares under option at end of year	784,008	705,236
Average option price	\$13.57	\$15.29

At December 31, 1977, there were 643,105 shares of common stock reserved for future grants under Stock Option Plan D.

Under the Nonqualified Stock Option and Stock Unit Award Plan, options which have been elected as stock units entitle the grantee, subject to the provisions of the plan, to a cash distribution rather than common stock of the Corporation. In addition, a qualified stock option which is not exercised prior to May 21, 1981 automatically becomes a non-qualified option on that date by operation of law.

Under the employee stock purchase plan, 1,268,552 shares of common stock are available for future issuance to eligible employees. During 1976, 492 shares of common stock were purchased at approximately \$8.13 per share under an offering made during 1973. No new offering has been made.

Operating Segment Information

The revenues and operating earnings information for 1977 on page 28, capital expenditures for 1977 on page 26 and the description of products and services of each segment on page 19 are an integral part of these statements and should be read in conjunction with this note.

Depreciation and amortization for the year 1977 and identifiable assets as of December 31, 1977 are presented below by major market segment. Corporate assets are principally cash and investments.

	Identifiable assets	Depreciation and amortization
Utility services:		
Electric	\$ 354,185,000	\$ 11,060,000
Gas	347,748,000	7,084,000
Water	242,335,000	4,422,000
	944,268,000	22,566,000
Land transportation	264,811,000	24,462,000
Industrial products and services	152,261,000	12,390,000
Ocean shipping	786,680,000	33,147,000
Distribution services	177,056,000	2,993,000
Agribusiness products and services	260,738,000	7,725,000
Other	45,253,000	2,662,000
Corporate	28,031,000	250,000
Total	\$2,659,098,000	\$106,195,000

Leasing Activities

Rental expense, including short-term leases and immaterial amounts of contingent rents, was \$102,662,000 and \$97,220,000 for 1977 and 1976, respectively. Sublease income from these leases, which is included in revenues and other income, was \$31,248,000 and \$36,892,000, respectively.

At December 31, 1977, the minimum rental commitments under all noncancellable leases, before deducting \$32,896,000 in minimum sublease rentals, were approximately:

Year	Minimum commitments
1978	\$ 38,935,000
1979	26,393,000
1980	19,736,000
1981	12,179,000
1982	9,957,000
Thereafter	83,201,000
Total	\$190,401,000

At December 31, 1977, vessels owned by the ocean shipping subsidiary with a carrying value of \$570,450,000, net of accumulated depreciation of \$78,146,000, were on charter or held for charter. At December 31, 1977, minimum

charter hire receivable, including amounts representing executory costs and related profit, was approximately:

Year	Minimum charter hire
1978	\$ 85,427,000
1979	70,471,000
1980	58,089,000
1981	53,417,000
1982	55,061,000
Thereafter	805,065,000
Total	\$1,127,530,000

In November 1976, the Financial Accounting Standards Board issued Statement No. 13, "Accounting for Leases" (FAS 13). The Statement is effective for lease agreements entered into on or after January 1, 1977. The Securities and Exchange Commission requires FAS 13 to be applied retroactively in 1978.

If FAS 13 had been applied retroactively, certain leased assets and certain charters in effect prior to January 1, 1977 would not have been accounted for under the operating method.

If such leases had been accounted for as capital leases at December 31, 1977 and 1976, as-

sets would have increased \$37,759,000 and \$41,366,000, respectively, and liabilities would have increased \$42,411,000 and \$46,332,000, respectively. Had such charters been accounted for as direct financing leases, retained earnings

would have increased \$5,757,000 and \$6,345,000 at December 31, 1977 and 1976, respectively.

Retroactive application of FAS 13 will have no material effect on net earnings for 1977.

Contingencies and Commitments

At December 31, 1977, outstanding contractual commitments of certain subsidiaries amounted to approximately \$322,000,000 for the construction of vessels (at exchange rates in effect on December 31, 1977); approximately \$35,000,000 for the purchase of equipment and operating rights for the trucking companies; and approximately \$99,000,000 for the construction of new utility plant. Mortgage financing of \$237,300,000 has been arranged with respect to a portion of these commitments. Of this total amount, \$193,023,000 is available subject to agreement on security. A total of \$105,313,000 of the outstanding contractual commitments becomes due for payment in 1978.

In addition, certain subsidiaries are directly liable for their proportionate share of mortgage loans on vessels and rigs in operation in the amount of \$26,000,000 at December 31, 1977, and are contingently liable for the other partners' share in the amount of \$31,600,000.

The By-laws of the Corporation provide for the indemnification of its directors, officers, employees or agents against liability and expenses with respect to their conduct in such capacities and when serving in similar capacities for other corporations at the request of the Corporation. In the opinion of the Corporation's counsel, there is no reasonable probability at present of any substantial liabilities arising as a result of this By-law provision.

Quarterly Operating Results (Unaudited)

The following is a summary of the unaudited quarterly operating results for the two years ended December 31, 1977:

	Revenues and other income	Cost of products sold, other operating costs and expenses	Net earnings	Earnings per share	
				Primary	Assuming full dilution
For the year 1977:					
First quarter	\$ 549,105,000	\$ 404,184,000	\$21,546,000	\$.64	\$.60
Second quarter	559,306,000	421,087,000	10,245,000	.30	.28
Third quarter	563,496,000	422,688,000	13,371,000	.39	.37
Fourth quarter	603,873,000	446,636,000	14,079,000	.42	.39
Full year	\$2,275,780,000	\$1,694,595,000	\$59,241,000	\$1.75	\$1.66
For the year 1976:					
First quarter	\$ 473,242,000	\$ 348,288,000	\$ 9,927,000	\$.29	\$.28
Second quarter	476,688,000	356,687,000	14,306,000	.43	.40
Third quarter	471,860,000	360,932,000	6,891,000	.20	.19
Fourth quarter	535,858,000	418,054,000	11,321,000	.33	.31
Full year	\$1,957,648,000	\$1,483,961,000	\$42,445,000	\$1.25	\$1.18

Foreign currency adjustments resulted in the gains (losses) shown in the table to the right.

	1977	1976
First quarter	\$ 8,429,000	\$(8,082,000)
Second quarter	(807,000)	(4,616,000)
Third quarter	3,673,000	(1,321,000)
Fourth quarter	3,092,000	12,576,000
Full year	\$14,387,000	\$(1,443,000)

**Replacement
Cost**
(Unaudited)

In accordance with Securities and Exchange Commission regulations, management has estimated the current replacement cost of certain inventories and productive capacity of the Corporation and its consolidated subsidiaries as of December 31, 1977 and 1976, together with related amounts of cost of sales and depreciation and amortization. Such information is included in the Corporation's Annual Report to the Securities and Exchange Commission on Form 10-K.

The estimated replacement cost of inventories and the related amount of cost of sales do not significantly exceed the related historical dollar amounts.

The estimated replacement cost of certain property, plant and equipment and the related amount of depreciation and amortization significantly exceed the related historical dollar amounts reflecting the cumulative impact of inflation principally on the long-lived assets of the utility subsidiaries.

Although the replacement cost data has, in the Corporation's view, been estimated in a reasonable manner, it is the opinion of management that the data is of limited value because of the subjectivity necessarily involved in making these estimates. The data should not be construed to represent either the Corporation's intent to replace existing assets or, even if such assets were replaced, to represent the actual costs of such future replacements.

**Accountants'
Report**

PEAT, MARWICK, MITCHELL & CO.

CERTIFIED PUBLIC ACCOUNTANTS

1500 WALNUT STREET

PHILADELPHIA, PA. 19102

The Board of Directors and Shareholders
IU International Corporation
Wilmington, Delaware

We have examined the consolidated balance sheets of IU International Corporation (a Maryland corporation) and subsidiaries as of December 31, 1977 and 1976, and the related consolidated statements of earnings, additional paid-in capital, retained earnings, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of IU International Corporation and subsidiaries at December 31, 1977 and 1976, and the results of their operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

February 28, 1978

Shareholder Data

Shareholder Profile

IU International had 41,478 shareholders at year-end 1977, including 34,264 holders of common stock and 7,214 holders of preferred and preference stock.

On December 31, 1977, there were 30,236,217 outstanding shares of IU common stock; 944,782 outstanding shares of Special Stock, Series A; 632,775 outstanding shares of \$1.25 Convertible Preferred Stock; and 89,542 outstanding shares of \$5.00 Preferred Stock.

Common stock registration	Number of holders	Number of shares	% of total
Individuals	31,657	10,596,162	35%
Banks, securities firms and depository trusts	1,389	16,907,855*	56
Foundations, corporations, unions and pension plans	1,218	2,732,200	9
Total	34,264	30,236,217	100%

*Includes shares held beneficially on behalf of an estimated 10,000 individual shareholders.

During 1977, the trading volume of IU common stock on all exchanges was 10,270,576 shares. Of this, 7,787,832 shares were traded on United States stock exchanges.

In 1976, a total of 10,650,367 shares of IU common stock was traded on all exchanges; 7,665,731 were traded on United States exchanges.

Dividends

Dividend payments are made to IU shareholders on the first business day of March, June, September, and December. Total dividends paid during 1977 were \$28.3 million. Owners of common stock were paid \$27.1 million, and holders of preferred stock received \$1.2 million.

Automatic Dividend Reinvestment Service

IU shareholders may put their quarterly common stock dividends to work immediately by reinvesting them automatically in additional shares of IU common stock. Additional cash investments may also be made conveniently. A brochure describing this service is available from the company's Corporate Affairs Department at Executive Offices in Philadelphia, and from the Dividend Reinvestment Service Offices of Citibank, N.A., Post Office Box 4970, Grand Central Station, New York, New York 10017.

Investor Services

IU maintains an investor relations office within its Corporate Affairs Department at Executive Offices in Philadelphia. If beneficial shareholders experience delays in receiving IU financial reports from their brokerage firms, they are invited to write directly to the Corporate Affairs Department for interim and annual reports.

Transfer Agents

The transfer agents for IU's capital stock are Morgan Guaranty Trust Company of New York; Wilmington Trust Company in Wilmington; Bank of America, N. T. & S. A. in San Francisco; and Montreal Trust Company in Montreal, Toronto, Calgary, Vancouver and Regina.

Registrars

The registrars of the company's capital stock are Chemical Bank in New York; Wilmington Trust Company in Wilmington; Wells Fargo Bank N.A. in San Francisco; Crown Trust Company in Montreal, Toronto, Calgary and Vancouver; and The Royal Trust Company in Regina.

Stock Exchanges

IU's capital stock is listed for trading (symbol: IU) on these exchanges: New York, Philadelphia, Midwest, Pacific, Toronto, Montreal, Vancouver, London, Amsterdam, Oslo and Tokyo.

IU's Annual Report to the Securities and Exchange Commission on Form 10-K and the company's Facts & Figures Manual will be available, on request, from the Corporate Affairs Department of IU at Executive Offices in Philadelphia.

Capital Stock Summary

The cash dividends and the high and low prices of the company's stock on the New York Stock Exchange are shown in the table to the right. The Special Stock, Series A is not entitled to cash dividends, but is convertible into common stock at an increasing ratio.

The company's \$5.00 Preferred Stock does not trade actively and is not included in the table. During 1977 and 1976, the bid prices were \$55 and \$50 per share, respectively. Dividends of \$1.25 per share were paid in each quarter of 1977 and 1976 to holders of this stock.

	Common Stock			Special Stock, Series A		\$1.25 Convertible Preferred Stock		
	Dividend	High	Low	High	Low	Dividend	High	Low
Fourth Quarter 1977	\$.2250	12½	10½	34	31½	\$.3125	18½	17¾
Third Quarter 1977	.2250	14¾	11½	40	32½	.3125	22¾	18½
Second Quarter 1977	.2250	13¼	11¾	37	32½	.3125	21	18¾
First Quarter 1977	.2250	13¼	11¼	36½	33	.3125	20¾	18½
Fourth Quarter 1976	.2250	12¾	10	34¾	28¾	.3125	19½	16½
Third Quarter 1976	.2250	12¾	10½	34	29¼	.3125	20	17½
Second Quarter 1976	.2125	11¼	9¾	31	27¼	.3125	18	16
First Quarter 1976	.2125	13¼	9¾	35	26¼	.3125	21	15½



Corporate Headquarters

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